

Introduction

How fast has the trade deficit risen or fallen? How does the current-account deficit affect gross domestic product (GDP) and income? What is the contribution of recent export growth to the pace of expansion in the economy? How much do U.S. residents earn on their investments in foreign securities, and on their direct investments abroad? How has uncertainty in global financial markets affected the demand for U.S. Treasury securities? What was the total flow of foreign capital into U.S. financial markets in 2010? Such questions are as topical as ever, given the globalizing economy, the financial crisis and deep recession of 2008–2009, and uncertainty about the strength of recovery from the recession. The international transactions accounts (ITAs) and the related international investment position (IIP) accounts—two marquee international economic accounts from the Bureau of Economic Analysis—have long shed light on such questions. Recent economic events simply reaffirm that the answers to these questions remain as important as ever and reinforce the need to properly measure international transactions. This volume sets forth the current definitions, principles, and estimation methods that the Bureau uses to measure international transactions and compile the international accounts.

The International Transactions Accounts (ITAs)

The international transactions accounts (ITAs) record transactions between U.S. and foreign residents over a period of time, usually a quarter. The transactions are grouped broadly into (1) transactions related to the production of assets (such as goods and services), the generation of income (such as income earned from holdings of financial and real assets), and transfers (such as gifts), and into (2) transactions in financial assets and liabilities (which include financial transactions in direct investment, in securities, and in claims and liabilities of banks, nonbanks, and government). The first group of transactions is referred to as the current account and the second group as the financial account of the international transactions accounts. A third, very small, group of transactions is the capital account. The ITAs are used both on a stand alone basis and in combination with the national eco-

nomical accounts to provide a complete picture of the nation's value and composition of national output and its distribution of income.

Uses of the International Transactions Accounts

The ITAs provide government policymakers, business decision-makers, researchers, and the general public with information that enables them to follow and understand the performance of the U.S. economy. The following are among the principal uses of the ITA estimates.

The ITAs are a critical component of macroeconomic forecasting models. These mathematical models are developed using historical ITA estimates and other variables with the aim of predicting short-term economic activity or long-term economic trends.

The ITAs serve as one of several primary indicators of the current condition of the U.S. economy, particularly as indicators of export growth, which broadly reflects demand abroad for U.S. goods, and of import growth, which broadly reflects U.S. demand for foreign goods.

The ITAs provide critical inputs in the formulation and execution of macroeconomic policy and the assessment of the effects of these policies. They are used by the Federal Reserve Board in the formulation of monetary policy.

The ITAs are used in comparisons of the U.S. economy with economies of other countries. Comparable international statistics facilitate assessments of relative economic performance among countries, and they provide the basis for tracking and analyzing the global economy. The ITAs and related data on activities of U.S. multinational companies (MNCs) are also used to study international competitiveness, as well as in the formulation of trade policy.

The ITAs and related data on activities of U.S. MNCs are used by businesses to assist in their decisions on the location of affiliates abroad, the hiring of foreign

labor, and sales and purchases of goods and services abroad.

The ITAs are one component of rapidly expanding programs of risk assessment and regulation of financial institutions.

The ITAs meet some of the macroprudential supervisory needs of institutions such as the Federal Reserve, the European Central Bank, and the International Monetary Fund.

Relation of the International Transactions Accounts to Other National Economic Accounts

The ITAs are an important component of three major sets of accounts which comprise the system of U.S. national economic accounts—the national income and product accounts, the industry accounts, and the flow of funds accounts.

The national income and product accounts (NIPAs), prepared by BEA, display the value and composition of national output and the distribution of incomes generated in production. The international dimension of these productive activities is represented by estimates of sales and purchases of goods and services to and from foreigners, which are obtained from the ITAs. Income flows to and from foreigners, also from the ITAs, represent the international dimension of series such as national income and corporate profits.

The industry accounts, also prepared by BEA, consist of the input-output (I-O) accounts, which trace the flow of goods and services among industries in the production process and which show the value added by each industry and the detailed commodity composition of national output, and the gross domestic product (GDP) by industry accounts, which measure the contribution of each private industry and of government to GDP. International flows of goods and services from the ITAs are crucial to the complete measurement of output at the national level and to the industry composition of that output.

The flow of funds accounts, prepared by the Federal Reserve Board, record the acquisition and sales of nonfinancial and financial assets throughout the U.S.

economy, the sources of funds used to acquire those assets, and the value of assets held and of liabilities owed. Data on transactions in nonfinancial and financial assets and liabilities from the ITAs (and amounts outstanding from the international investment position (IIP) accounts) provide the international dimension of transactions (and positions) in these assets and liabilities.

BEA also prepares estimates of the U.S. international investment position (IIP), which in contrast to transactions in the ITAs, measures amounts outstanding of U.S. holdings of foreign assets and of foreign holdings of U.S. assets. Both the transactions and position data are closely related and are based on much of the same source data. BEA also prepares a large set of data on the international activities of U.S. multinational companies, which measure corporate activities such as sales, production, and employment abroad.

BEA also prepares regional accounts, which consist of estimates of gross domestic product (GDP) by state and by metropolitan area, of state personal income, and of local area personal income, but the ITAs are not used in this set of accounts. Finally, the U.S. Bureau of Labor Statistics prepares estimates of productivity for the U.S. economy, which are partly based on BEA's estimates of GDP.

Altogether, the system of U.S. economic accounts presents a coherent, comprehensive, and consistent picture of U.S. economic activity.

Origin and History of the International Transactions Accounts

The Department of Commerce first published the international transactions accounts in 1922 and later carried the estimates back to 1919–1921. The Department's Bureau of Foreign and Domestic Commerce published the estimates throughout the 1930s and World War II. The statistics were much in demand to measure the flow of goods and services abroad during the War. Even greater attention was focused on the accounts published by the Office of Business Economics, the successor agency to the Bureau of Domestic and Foreign Commerce, after the War when

the Office played a prominent role in the measurement of financial assistance provided for economic reconstruction in the late 1940s and much of the 1950s.

With the advent of increased currency convertibility and the increased flow of capital internationally, there was considerable disagreement by the late 1960s as to how best to present the accounts. Several “partial” balances, consisting mostly of various components of the current account and some long-term capital transactions, were judged to present an incomplete picture of total payments flows. Financial transactions were not recognized as part of the payments flow of the nation in any of these balances, yet had begun to rise sharply in size. This was especially true with the surge in transactions of U.S. banks in the rapidly developing Eurodollar market. With the free flow of capital, it became impossible to distinguish successfully between transactions in liquid and illiquid assets, as well as to distinguish successfully between financial (particularly short-term) flows that were the flows of the nation’s payments and financial flows that were considered as settlement transactions required of monetary authorities under the system of fixed exchange rates.

There was also considerable disagreement on how best to capture, in a single “overall” or “summary” balance, the total payments flows of the nation. Several “overall” balances were published as part of the official presentation of the accounts, but often gave conflicting evidence on the payments flows of the nation for a given quarter or year. Equally important, these “overall” balances were far too volatile in short time periods to provide a reliable gauge of longer run developments in the payments position of the nation.

In the final analysis, the choice of one or several “overall” balances was made more difficult not only by limitations of the statistical reporting system but also by complications resulting from the dollar’s role as an international reserve currency.

The choice of several “overall” balances was retained, but improved somewhat, in the 1971 modification of the presentation of the accounts, but the end of the Bretton Woods system of fixed exchange rates in 1973 made the presentation of these balances

considerably less relevant. The current presentation of the accounts (by the Bureau of Economic Analysis, successor agency to the Office of Business Economics) originated in 1976, following a review by an expert advisory panel, which recommended that the accounts be presented with no single “overall” or “summary” balance; however, presentation of “partial” balances was appropriate. The presentation has been modified since 1976, but modifications have not altered the basic structure.

By the 1980s, there was widespread agreement on the increased importance of financial transactions in the international accounts, which reflected numerous efforts in the previous decade to integrate explanations of the flow of payments in the real sector with the stock of financial assets and expectations of their future values in the financial sector in determining the nation’s international transactions and exchange rate. These efforts, by both theorists and empiricists in the academic community, emphasized the importance of financial transactions and recognized that adjustments in the real and financial sectors were interdependent.

Changes to the Accounts

The ITAs have evolved continuously over the past 25 years in an effort to address gaps in statistical coverage, particularly those arising from the rapid growth, innovation, and changes in international trade, services, and financial markets. The following are examples of some of the major changes that have been introduced to keep the accounts up to date and relevant to the needs of government policymakers and business decision-makers.

In 1989, the ITAs adopted the Harmonized System of commodity classification for goods exports and imports which provided a much improved and more detailed structure upon which to base trade data.

In the late 1980s and early 1990s, and again in the mid-2000s, BEA’s current collection system for business services was first developed, then expanded considerably, to capture the rapidly expanding universe of internationally traded services, partly in response to the Trade and Tariff Act of 1984, which established

mandatory reporting of U.S. international trade in services and called for benchmark surveys of international services.

In 1994, a new set of monthly services estimates was introduced in response to requests from policymakers for more timely estimates of services transactions.

As a supplement to regularly reported data, counterpart data from foreign statistical authorities have been used since 1993 to expand coverage of nonbank claims and liabilities vis-à-vis foreign banks, and industry data have been used since 2008 to expand significantly coverage of nonbank financial intermediaries' claims associated with the issuance of asset-backed commercial paper.

In 2001–2005, the reorganization and significant expansion of the U.S. Treasury Department's and Federal Reserve System's statistical collection system for transactions in securities and for transactions of banks and nonbanks led to major improvements in coverage, which benefitted not only the financial accounts but also the income accounts.

In 2006 and 2007, the geographic detail available for the complete set of accounts was expanded significantly from 18 to 37 major countries and areas.

In 2007, estimates of transactions in financial derivatives were incorporated into the accounts for the first time, based on a newly developed survey.

Coordination with the International Statistical Community

In addition to the improvements in coverage cited above, BEA has been actively involved in the international statistical community in the development of new and updated guidelines for the preparation of both the NIPAs and the ITAs. New guidelines for the NIPAs were finalized with the release of the *System of National Accounts (2008)*. New guidelines for the ITAs were finalized with the release of the IMF's *Balance of Payments and International Investment Position Manual*, 6th edition in 2009, and the OECD's *Benchmark Definition of Foreign Direct Investment*, 4th edition, in 2008. All three volumes have been updated and co-

ordinated so as to produce a harmonized and internally consistent system of economic accounting guidelines.

Publication and Revision Cycle of the International Transactions Accounts

Preliminary quarterly estimates of the ITAs are released in March, June, September, and December, approximately 75 days after the close of the reference quarter. Preliminary estimates are revised the following quarter to incorporate new source data. No further revisions are made until the following June, when annual revisions to the accounts incorporate updated and more complete source data, and when all quarters of the current year are open for revision. In addition, the annual revisions in June include changes to several previous years, usually three or four, to incorporate new estimation methodologies and the results of annual and benchmark surveys.

Availability of International Transactions Accounts Estimates

Interactive tables of the ITAs are available on BEA's Web site, www.bea.gov: electronic releases of the estimates occur in March, June, September, and December; the print versions of the estimates appear in the January, April, July, and October issues of the *SURVEY OF CURRENT BUSINESS*.

Updated values of the estimates in the tables that accompany the text in this volume can be obtained by consulting the interactive tables mentioned above. A few tables contain detailed estimates developed specifically for this presentation that are not updated on a regular basis.

Organization of This Volume

This volume is divided into four parts. The first presents the major concepts definitions, and principles used in construction of the U.S. international transactions accounts and a brief description of the main structure of the accounts. The remaining parts present an account by account description of the major estimation methods used in the construction of each account for the components of the current account, the capital account, and the financial account.

Concepts, Definitions, and Principles

The international transactions accounts (ITAs) record transactions between U.S. and foreign residents over a period of time, usually a quarter. Currently, the transactions are divided into three major categories. The **current account** includes transactions in goods, services, income, and unilateral current transfers. The **capital account** includes transactions in capital transfers and in nonproduced nonfinancial assets. The **financial account** includes transactions in U.S.-owned assets abroad and foreign-owned assets in the United States.

Concept of Economy

For purposes of the ITAs, the **United States** consists of the 50 states, the District of Columbia, Puerto Rico, the Virgin Islands and other territories and possessions, and U.S. foreign trade zones. (The U.S. national income and product accounts use a slightly different definition of the United States which excludes the territories and possessions.) The territories and possessions are included because they have a closer degree of economic association with the United States than with any other country. (Alternatively, this could also be described by saying that the United States is the predominant center of economic interest for these territories and possessions.) U.S. government military, diplomatic, consular, and other nonmilitary installations abroad are considered to be within the U.S. economy, and their operations are regarded as an extension of U.S. government domestic operations.

Concept of Resident

A **U.S. resident** is defined to include (1) **individuals** residing permanently in the United States, (2) **business enterprises and nonprofit organizations** established under U.S. laws, including corporations, partnerships, and proprietorships; and (3) **U.S. federal, state, and local governments**, together with their subdivisions.

Individuals

Individuals who reside or expect to reside in the United States for 1 year or more are considered U.S.

residents. An exception is made for U.S. students who study abroad and foreign students who study in the United States; students retain the residency of their home country regardless of their length of stay. U.S. government employees stationed abroad (and their families) such as diplomats, consular officials, and members of the armed forces are also considered as U.S. residents, regardless of their length of stay abroad.

Medical patients, like students, retain the residence of their home country regardless of their length of stay for treatment.

Cross-border workers, seasonal workers, and other short-term workers are considered as residents of the country of their principle dwelling, rather than the territory of employment. Refugees are considered as residents of their country of refuge, rather than their home country, if they have stayed or intend to stay in their place of refuge for 1 year or more.

Crew of ships, aircraft, oil rigs, space stations and other similar equipment that operate outside a territory or across several territories are treated as residents of their home base territory.

International organization staffs are residents of the territory of their principle dwelling. The treatment of international organization staffs is different from that for national diplomats and other government officials mentioned previously because the latter have formal diplomatic status, whereas staffs of international organizations lack formal diplomatic status.

Business enterprises and nonprofit organizations

Business enterprises and nonprofit organizations are considered residents of the country in which they are located, operated, organized, incorporated, or controlled financially. U.S. resident organizations consist of all profit-making and nonprofit organizations established under U.S. laws; their foreign affiliates—subsidiaries, branches, partnerships, and sole proprietorships—are considered residents of the

countries in which they are located. Similarly, all affiliates—subsidiaries, branches, partnerships, and sole proprietorships—of foreign profit-making and non-profit organizations that operate in the United States are considered U.S. residents. A foreign branch is an unincorporated business affiliate established in a foreign country to conduct the business of the parent company in the parent's name; it is not a separate legal entity. A foreign subsidiary is a business affiliate established and incorporated in a foreign country under local laws; it is a separate legal entity from the parent company. Transactions between parent companies and their incorporated and unincorporated affiliates are recorded as transactions between residents and nonresidents.

In some cases, business firms, although organized in the United States, are foreign owned and operate entirely abroad. These firms are treated as residents of the countries of operations, not as U.S. residents. In other cases, the firms may be organized in the United States and controlled by U.S. interests, but operate abroad. Because of control by U.S. interests, these firms are treated as U.S. residents.

Local sales by foreign affiliates of U.S. companies are not recorded in the U.S. international transactions accounts because they represent transactions between nonresidents. Similarly, local sales by U.S. affiliates of foreign companies are not recorded because they represent transactions between residents.

Governments

Federal, state, and local governments and their agencies and subdivisions, operating at home and abroad, are considered as residents of their home country. Thus, U.S. government installations abroad are considered residents of the United States, and foreign government installations located in the United States are considered as residents of their home country.

International organizations

International organizations such as the United Nations, the International Monetary Fund, and the International Bank for Reconstruction and Development are considered residents of an international area be-

yond national boundaries, rather than residents of the country in which they are located or in which they operate. Transactions include, for example, the administrative expenditures of these organizations in the United States and employment of U.S. residents.

Double-Entry Principle

The ITAs apply a **double-entry system of accounting** in recording transactions: for any entry there must be counterpart entry. Exports of goods and services, income receipts, unilateral current transfers to the United States, capital account receipts, decreases in U.S. assets abroad, and increases in foreign-owned liabilities in the United States are shown as **credits** (with a positive sign). Imports of goods and services, income payments, unilateral current transfers from the United States, capital account payments, increases in U.S. assets abroad, and decreases in foreign-owned liabilities in the United States are shown as **debits** (with a negative sign). For each credit entry there must be an equal and offsetting debit entry, and vice versa. For example, if a foreign resident purchased a U.S. good with a check drawn against its U.S. bank account, the offset to the credit entry for U.S. goods exports would be a debit entry for foreign-owned bank-reported liabilities, reflecting the reduction in foreign-owned assets in the United States.

Time of Recording and Changes in Ownership

The **accrual basis** of accounting is the preferred basis for determination of the time of recording of transactions because it matches the time of recording with the timing of the events giving rise to the actual resource flows. The accrual basis specifies that transactions are to be recorded when a change of ownership occurs in real or financial assets. Generally, this is when real and financial assets are purchased or sold, and the time of recording these transactions is when the purchases or sales are entered on the books of the business entities, irrespective of when cash was paid or was due to be received or paid. This change in ownership principle is the same as that employed throughout the U.S. national economic accounts.

The concept of **economic ownership** refers to the ownership of assets and all of the risks and rewards of ownership. The risks include the potential losses

caused by damage, theft, or holding losses; by management, transfer, or maintenance costs that are greater than anticipated; and, in the case of financial assets, by default of the counterparty. The rewards generally refer to the ability to use assets in production, such as buildings or machinery; the generation of services, such as renting produced assets to another entity; the generation of property income, such as interest and dividends received by owners of financial assets; and the potential to sell and thus realize holding gains. Economic ownership is often the same as **legal ownership** and changes in legal ownership are often used as evidence that a change in economic ownership has occurred. However, evidence that legal ownership has changed is sometimes not available in a timely fashion and occasionally differs from the concept of risk and rewards of economic ownership, in which case pragmatic applications need to be employed to gauge the appropriate time of recording of transactions.

The general application of the change in economic ownership principle to the ITAs follows. As a practical matter, the application varies according to the nature of the transactions and source data.

(1) For *goods*, the time at which goods cross the customs boundary is used as an approximation to the time when the change in ownership occurs; the transaction is deemed to have occurred at the time the customs declaration is filed. The same change in economic ownership principle also applies to goods shipped under consignment, goods sent abroad for processing, and goods under merchanting, but in these cases, movements across the customs boundary cannot always be used as a proxy for changes in ownership because ownership does not always change. (2) For *services*, transactions are recorded when the services are performed or provided. The provision of services is recorded in each accounting period as the services are performed, not when payments are made. (3) For *income*, transactions are recorded in the period in which the amounts payable accrue, not when the income is paid or received. Dividends paid by direct investors to their affiliates are recorded at the time they are either received from (paid to), or entered into, intercompany accounts with the foreign affiliate, whichever occurs first. Dividends on securities are recorded, in principle, at the time the shares

go ex-dividend, but are estimated as though they accrue continuously. Interest is recorded as accruing on a continuous basis because the financial resources are provided for use continuously.

(4) For *grants* and many other voluntary unilateral current transfers, the change in ownership is generally when the goods, services, or financial assets that are corresponding entries to the transfers are exchanged or transferred. (5) For *U.S. government assets, other than official reserve assets*, transactions are recorded on a cash basis because the government's basic accounting records that serve as source data for these accounts are maintained on a cash basis. (6) For *capital transfers*, the change in ownership generally occurs when the goods, services, or financial assets that are corresponding entries to the transactions are exchanged or transferred, and for *nonproduced nonfinancial assets*, transactions occur when economic ownership of the underlying assets change. (7) For *financial assets*, transactions are recorded at the time the claims are created, extinguished, or exchanged, or are entered on the books of the business entities, which may be governed by legal or contractual requirements that establish the date of the transaction. (8) For *repayments of debt*, transactions are recorded when the debt is extinguished (such as when it is paid, rescheduled, or forgiven by the creditor).

In the special case of shipments between a parent company and its unincorporated affiliate, no legal change of ownership can occur in the strict sense because the parent and foreign affiliate are one legal entity. Nevertheless, the shipments are between residents and nonresidents and are treated in the balance of payments as if ownership had changed, in the same way that shipments between a parent company and its incorporated foreign affiliate—which is a separate legal entity—are treated.

Goods shipped under leasing arrangements are assumed to have changed ownership even though no legal change in ownership has occurred. Goods shipped under leasing arrangements for more than 1 year (capital—or financial—leases), where most of the original cost of the equipment is recovered, are included in the appropriate goods account. Goods shipped under leasing arrangements for periods of less than 1 year (operating leases) are considered

temporary shipments and thus are omitted from the goods trade accounts; the lease payments are included in the services accounts.

Valuation

International transactions are usually valued at **market prices**, which is the same principle as that used throughout the U.S. national economic accounts. In theory, that is the price that a willing buyer pays to a willing seller in a purely commercial transaction when the entities are not related and when there are no noncommercial considerations. In practice, these conditions do not always exist, because many international transactions occur between entities affiliated in a business relationship, and because noncommercial considerations often enter into the determination of the price. Nevertheless, adjustments in the reported values are made only in unusual cases.

The general application of the market price principle to the ITAs follows. (1) For *goods*, reported transactions are generally assumed to represent market prices, even for shipments between affiliated enterprises. (2) For *services*, transactions are generally estimated from sample surveys in which reporters are asked to report transactions at market values. (3) For *income on direct investment*, transactions are actual amounts reported by direct investment enterprises, with the exception of reinvested earnings which are calculated as a residual from market values of amounts actually reported. (4) For *other private income*, even when affiliated related financial institutions are involved, transactions are estimated using market prices. (5) For *unilateral current transfers* and *capital transfers*, transactions are usually valued on the basis of the actual cost incurred in providing real and financial assets; for *nonproduced nonfinancial assets*, transactions are valued at market prices. (6) For *securities*, transactions are recorded at acquisitions or sales values. (7) For *claims and liabilities* reported by banks and nonbanks, transactions are based on positions of assets and liabilities stated at book or original values.

When real or financial assets are acquired at one price and sold at another, both transactions are recorded at their market values. Thus, **realized** capital gains and losses, including those due to exchange rate changes, are reflected in the international transactions accounts. In contrast, **unrealized** capital gains

and losses that arise from changes in prices of assets are excluded from the accounts because these are **holding** capital gains and losses rather than returns to property or labor. These holding gains and losses are, however, included in the international investment position accounts.

Transactions denominated in foreign currencies are reported at their dollar equivalents, generally converted at exchange rates prevailing at the time of reporting, usually the last business day of the month.

Net and Gross Recording

Transactions in the current account of the ITAs are recorded on a **gross basis** in order to present a picture of the two-way flow of trade. Transactions in the financial account of the ITAs, however, are presented on a **net basis** for U.S. assets abroad and on a **net basis** for foreign assets in the United States. For example, if the United States had both exports and imports of automobiles in a given period, exports and the imports would be separately recorded. If, in contrast, U.S. residents both sold and purchased foreign bonds in a given period, only the net sales or purchases would be recorded. Net recording of flows in financial assets and liabilities is preferred because of the greater analytical interest in net flows than in gross flows, though gross flows may be of interest in analyzing some aspects of payments positions or financial markets.

At the present time, transactions in current transfers and in capital account transactions have limited source data available to present transactions on a gross basis; therefore, transactions are presented on a net basis. Furthermore, for some outflows, there are no similar or related inflows.

Classification of Assets

Transactions in **produced assets**, in income earned by labor and capital from their contributions to production, and in current transfers are covered in the goods, services, income, and current unilateral transfers components of the current account. Transactions in **nonproduced nonfinancial assets** are covered in the capital account. Transactions in **financial assets** and **financial liabilities** are covered in the financial account.

Classification of Transactions

In general, the international transactions accounts' classification system is designed to group together transactions that respond to similar economic influences and that show similar patterns of behavior. The international transactions accounts (ITAs) have three principal components: (1) the current account, (2) the capital account, and (3) the financial account. The presentation of the accounts is shown in [Exhibit 1](#).

Current account

The current account measures transactions in goods, services, income, and net unilateral current transfers between U.S. residents and nonresidents that relate to current production and to the incomes generated from productive activities. These are the transactions most closely related to current production, consumption, and income. All are also included as part of the foreign sector in the national income and product accounts (NIPAs), though their arrangement in the NIPA framework is somewhat different than that of the ITAs.

Goods refers to tangible commodities, which may be in the form of raw materials, intermediate products, or final products. *Services* refers to economic output that is intangible in nature, that cannot be stored, and that is generally produced and consumed at the same time. In a few cases, the distinction between goods and services is blurred, usually because they are commingled in the source data. *Income* refers to receipts and payments on international investments, such as dividends and interest from holdings of financial assets, and dividends, interest, and reinvested earnings of multinational corporations—all of which are considered returns for the use of capital. Returns to labor in the form of compensation (wages and salaries) are also included. *Unilateral current transfers* are transfers of goods, services, or financial assets without a quid pro quo—such as a government donation of food products to alleviate famine; the country receiving the transfer neither provides nor promises to provide anything of economic value in return. A distinction is made between government

transfers, such as foreign assistance to developing countries, and private transfers, such as remittances by philanthropic organizations. Transfers by U.S. residents are netted against transfers from nonresidents in the presentation of the accounts.

Capital account

Capital-account transactions measure transactions between residents and nonresidents in the stock of *nonproduced nonfinancial assets* from purchases and sales of tangible and intangible assets, such as mineral rights, copyrights, and trademarks, and from transactions in *capital transfers*, such as debt forgiveness and insurance payments related to catastrophic losses. Transactions in the components of the capital account result in commensurate changes in the stocks of assets of one or both parties to the transaction without affecting the saving of either party; thus, they do not affect measures of production, disposable income, and savings of an economy. In contrast, transactions in the components of the current account do affect measures of production, disposable income, and savings of an economy.

Financial account

The financial account measures transactions in financial assets and liabilities between residents and nonresidents. None of these transactions are included in the NIPAs. Financial assets may be exchanged for goods, services, and income flows, for other financial assets, or they may represent the offsets to unilateral current transfers or capital account transactions.

The major organizing principle in classifying the financial account is the distinction between *U.S.-owned assets abroad* and *foreign-owned assets in the United States*. The sector identification for the accounts is that of the domestic creditor for assets and the domestic debtor for liabilities.

The functional breakdown for U.S.-owned assets abroad distinguishes among U.S. official reserve

assets, U.S. government assets other than official reserve assets, and private U.S. assets. Private U.S. assets are classified into direct investment, foreign securities, nonbank-reported claims, and bank-reported claims.

The functional breakdown for foreign-owned assets in the United States distinguishes between assets held by foreign official agencies (primarily foreign monetary authorities) and those held by other foreigners. Foreign official assets are classified into U.S. Treasury securities, other U.S. government securities, other U.S. government liabilities, bank-reported liabilities, and other foreign official assets. Other foreign assets are classified into direct investment, U.S. Treasury securities, U.S. securities other than U.S. Treasury secu-

rities, nonbank-reported liabilities, and bank-reported liabilities.

Currency shipments, net, from U.S. banks to foreign banks are classified separately.

Transactions in financial derivatives are reported net in the source data and, therefore, cannot be separated into transactions for U.S.-owned assets abroad and foreign-owned assets in the United States. They are presented as a single line separate from the lines for other financial assets and liabilities.

The statistical discrepancy is the entry necessary to balance recorded credits and debits in the accounts.

Exhibit 1

Table 1. U.S. International Transactions—Continues
[Millions of dollars]

Line	(Credits +; debits –) ¹	2008	2009
Current account			
1	Exports of goods and services and income receipts	2,635,540	2,159,000
2	Exports of goods and services	1,839,012	1,570,797
3	Goods, balance of payments basis	1,304,896	1,068,499
4	Services	534,116	502,298
5	Transfers under U.S. military agency sales contracts	14,936	17,096
6	Travel	109,976	93,917
7	Passenger fares	31,404	26,424
8	Other transportation	43,714	35,406
9	Royalties and license fees	93,920	89,791
10	Other private services	238,932	238,332
11	U.S. government miscellaneous services	1,234	1,333
12	Income receipts	796,528	588,203
13	Income receipts on U.S.-owned assets abroad	793,484	585,256
14	Direct investment receipts	403,225	346,073
15	Other private receipts	385,353	234,458
16	U.S. government receipts	4,906	4,724
17	Compensation of employees	3,044	2,947
18	Imports of goods and services and income payments	-3,182,368	-2,412,489
19	Imports of goods and services	-2,537,814	-1,945,705
20	Goods, balance of payments basis	-2,139,548	-1,575,443
21	Services	-398,266	-370,262
22	Direct defense expenditures	-28,311	-30,474
23	Travel	-79,726	-73,230
24	Passenger fares	-32,563	-25,980
25	Other transportation	-53,702	-41,586
26	Royalties and license fees	-25,781	-25,230
27	Other private services	-173,686	-168,892
28	U.S. government miscellaneous services	-4,497	-4,871
29	Income payments	-644,554	-466,783
30	Income payments on foreign-owned assets in the United States	-634,190	-456,027
31	Direct investment payments	-115,538	-94,010
32	Other private payments	-352,053	-218,020
33	U.S. government payments	-166,599	-143,997
34	Compensation of employees	-10,364	-10,757
35	Unilateral current transfers, net	-122,026	-124,943
36	U.S. government grants	-36,003	-41,638
37	U.S. government pensions and other transfers	-8,390	-8,874
38	Private remittances and other transfers	-77,633	-74,431
Capital account			
39	Capital account transactions, net	6,010	-140

See the footnote at the end of the table.

Table 1. U.S. International Transactions—Table Ends
[Millions of dollars]

Line	(Credits +; debits -) ¹	2008	2009
Financial account			
40	U.S.-owned assets abroad, excluding financial derivatives (increase/financial outflow (-))	156,077	-140,465
41	U.S. official reserve assets	-4,848	-52,256
42	Gold	0	0
43	Special drawing rights	-106	-48,230
44	Reserve position in the International Monetary Fund	-3,473	-3,357
45	Foreign currencies	-1,269	-669
46	U.S. government assets, other than official reserve assets	-529,615	541,342
47	U.S. credits and other long-term assets	-2,202	-4,069
48	Repayments on U.S. credits and other long-term assets	2,354	2,133
49	U.S. foreign currency holdings and U.S. short-term assets	-529,766	543,278
50	U.S. private assets	690,540	-629,552
51	Direct investment	-351,141	-268,680
52	Foreign securities	197,897	-208,213
53	U.S. claims on unaffiliated foreigners reported by U.S. nonbanking concerns	421,153	124,428
54	U.S. claims reported by U.S. banks and securities brokers	422,631	-277,087
55	Foreign-owned assets in the United States, excluding financial derivatives (increase/financial inflow (+))	454,722	305,736
56	Foreign official assets in the United States	550,770	450,030
57	U.S. government securities	591,381	441,056
58	U.S. Treasury securities	548,653	561,125
59	Other	42,728	-120,069
60	Other U.S. government liabilities	8,912	57,971
61	U.S. liabilities reported by U.S. banks and securities brokers	-153,423	-70,851
62	Other foreign official assets	103,900	21,854
63	Other foreign assets in the United States	-96,048	-144,294
64	Direct investment	328,334	134,707
65	U.S. Treasury securities	161,411	22,781
66	U.S. securities other than U.S. Treasury securities	-166,490	59
67	U.S. currency	29,187	12,632
68	U.S. liabilities to unaffiliated foreigners reported by U.S. nonbanking concerns	-36,522	-1,460
69	U.S. liabilities reported by U.S. banks and securities brokers	-411,968	-313,013
70	Financial derivatives, net	-32,947	50,804
71	Statistical discrepancy (sum of above items with sign reversed)	84,991	162,497
71a	<i>Of which: Seasonal adjustment discrepancy</i>		
Memoranda:			
72	Balance on goods (lines 3 and 20)	-834,652	-506,944
73	Balance on services (lines 4 and 21)	135,850	132,036
74	Balance on goods and services (lines 2 and 19)	-698,802	-374,908
75	Balance on income (lines 12 and 29)	151,974	121,419
76	Unilateral current transfers, net (line 35)	-122,026	-124,943
77	Balance on current account (lines 1, 18, and 35 or lines 74, 75, and 76)	-668,854	-378,432

1. Credits, +: Exports of goods and services and income receipts; unilateral current transfers to the United States; capital account transactions receipts; financial inflows—increase in foreign-owned assets (U.S. liabilities) or decrease in U.S.-owned assets (U.S. claims).

Debits, -: Imports of goods and services and income payments; unilateral current transfers to foreigners; capital account transactions payments; financial outflows—decrease in foreign-owned assets (U.S. liabilities) or increase in U.S.-owned assets (U.S. claims).